

COSTAIN

Results presentation

For the six months ended 30 June 2023

Improving people's lives.





COSTAIN

Operating Review

Alex Vaughan
Chief Executive Officer

Improving people's lives.

Highlights

Strong financial performance

Strong first half operating performance

- Revenue flat at £664.4m
- Adjusted operating profit⁽¹⁾ of £15.0m up 7.1%
- Strong adjusted free cashflow⁽²⁾ of £26.5m
- Period end net cash of £132.1m
- Business resilience due to diverse revenue and profit streams

Strengthened financial position

- Pension triennial review completed with reduced contributions
- Bank and surety facilities refinanced in July 2023
- Dividend resumption under review by Board with announcement expected shortly

Operational and margin progression

- Quality forward workload with high level of bidding
- Order book £2.5bn (FY 22: £2.8bn, H1 22: £2.7bn), preferred bidder book £1.5bn (FY 22: £1.6bn, H1 22: £1.6bn)
- Transformation delivering against plan
- On track to deliver against margin milestones FY 24 and FY 25

1. See notes 1 to 4 of financial statements for adjusted metric details and definitions.

2. Adjusted free cash flow is an adjusted metric and is defined as cash flow from operations, excluding adjusting items and pension deficit contributions, less taxation and capital expenditure. See slide 30 for detailed calculation. See slides 31 to 32 for a reconciliation of reported to adjusted measures.

Transportation



Adjusted Revenue¹

£487m

(H1 22: £495m)

Adjusted Revenue¹

-1.5%

Adjusted operating profit²

£12.2m

(H1 22: £15.9m)

H2 23 secured revenue

£422m

Adjusted operating margin² **2.5%**

(H1 22: 3.2%)

Rephasing and rescoping of contracts in Road and HS2

Road

Current Road schemes on A1, M1, M6 and A30. Managed exit of A66 and mobilised for A303. Area 14 maintenance

Rail

HS2 main works progressing to defined budget and Gatwick progressing to completion

Integrated Transport

Growing activities with Heathrow, Manchester Airport Group and TfL



1. See notes 1 to 4 of financial statements for adjusted metric details and definitions.
2. See notes 1 to 4 of financial statements for adjusted metric details and definitions.
See slides 31 to 32 for a reconciliation of reported to adjusted measures.

Natural Resources



Adjusted Revenue¹

£177m

(H1 22: £171m)

Adjusted Revenue¹

+3.9%

Adjusted operating profit²

£7.5m

(H1 22: £2.6m)

H2 23 secured revenue

£212m

Adjusted Operating margin² 4.2%

(H1 22: 1.5%)

Continued improved operational performance

Water

Delivering broad range of services to major water companies; secured first AMP8 contract

Energy

Market leadership in energy transition across industrial clusters and supporting energy resilience

Defence & Nuclear

Strong position in marketplace with ongoing revenue growth



1. See notes 1 to 4 of financial statements for adjusted metric details and definitions.
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See slides 31 to 32 for a reconciliation of reported to adjusted measures.

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Financial Review

Helen Willis
Chief Financial Officer

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Headline financial results



Financial Summary	H1 23 £m	H1 22 £m	Change %
Adjusted revenue ⁽¹⁾	664.4	665.2	0%
Reported revenue	664.4	665.2	0%
Adjusted operating profit ⁽²⁾	15.0	14.0	7%
Adjusted operating profit ⁽²⁾ margin	2.3%	2.1%	20bp
Reported operating profit	7.6	11.9	-36%
Reported profit before tax	8.5	11.2	-24%
Adjusted basic earnings per share ⁽³⁾	4.4p	3.9p	13%
Reported basic earnings/(loss) per share	1.9p	3.3p	-42%
Adjusted free cash flow ⁽⁴⁾	26.5	34.4	-23%

- Adjusted revenue flat on prior year
- Adjusted operating profit up 7% to £15.0m
- Adjusted operating margin improvement of 20 bp to 2.3%
- Reported profit before tax down 24% to £8.5m
- Adjusted basic earnings per share (EPS) up 13% to 4.4 pence
- Free cash flow of £26.5m

1. Adjusted revenue is an adjusted metric and excludes the impact of contract adjustments totalling £nil (H1 22: £nil).

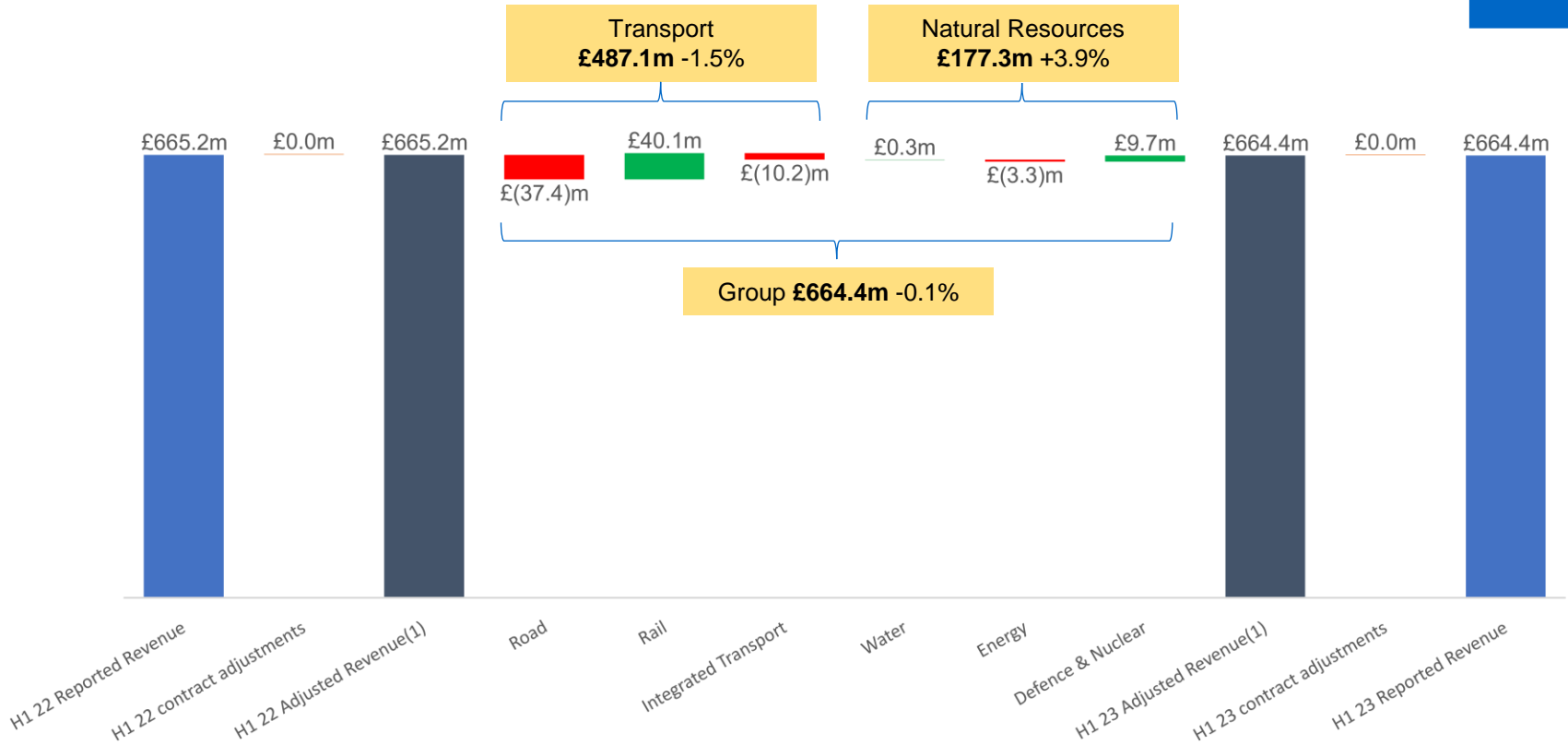
2. Adjusted operating profit and adjusted operating profit margin are adjusted metrics and exclude the impact of contract adjustments and other items totalling £7.4m (H1 22: £2.1m).

3. Adjusted Basic earnings per share is an adjusted metric and excludes the impact of contract adjustments and other items, net of tax, totalling £6.9m (H1 22: (£1.6m)).

4. Free cash flow is an adjusted metric and is defined as cash from operations, excluding adjusting items and pension deficit contributions, less taxation and capital expenditure. See slide 30 for detailed calculation. See slides 31 to 32 for a reconciliation of reported to adjusted measures.

Revenue walk

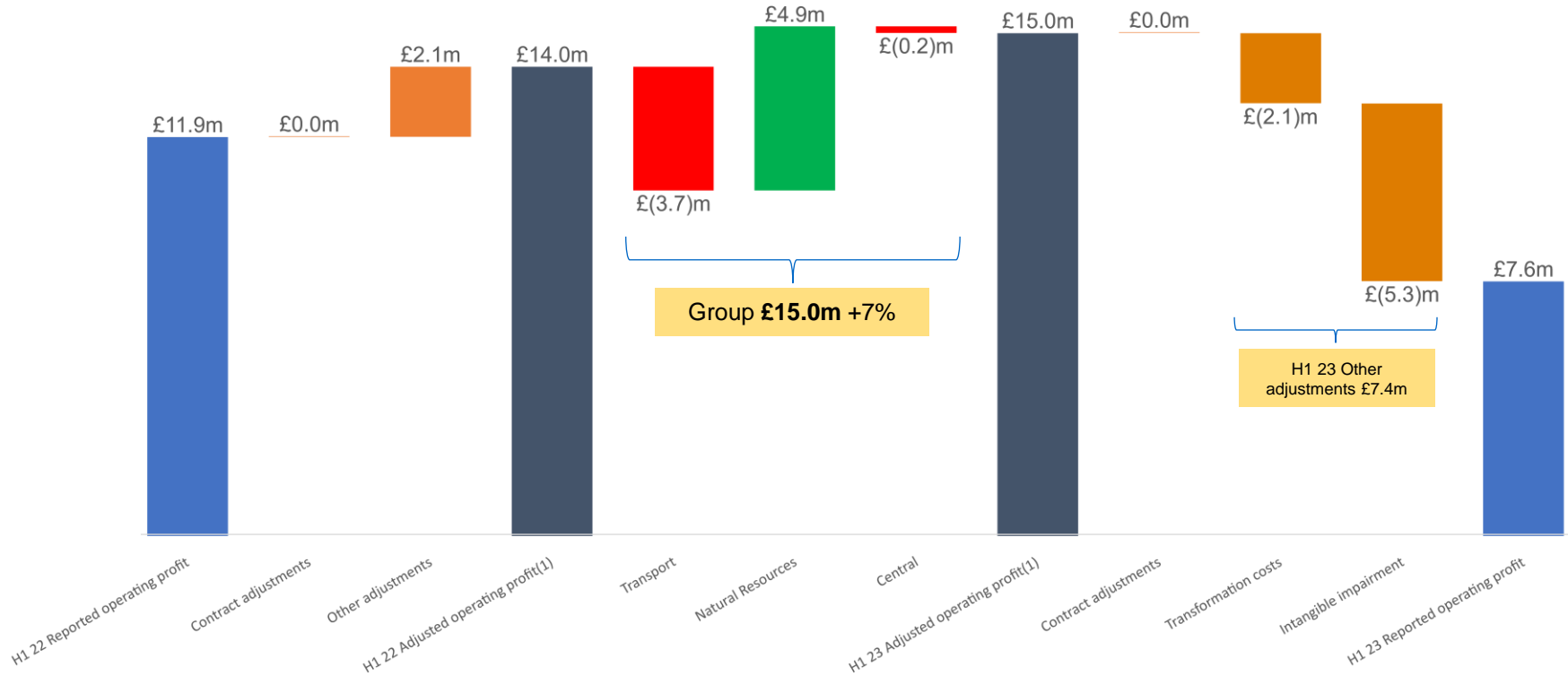
Growth in Natural Resources offsets project rephasing and rescoping in Transportation



1. Adjusted Revenue is an adjusted metric and excludes the impact of contract adjustments totalling £nil (H1 22: £nil). See slides 31 to 32 for a reconciliation of reported to adjusted measures.

Operating profit walk

Growth in Natural Resources and impact of project rephasing and rescoping in Transportation



1. Adjusted operating profit is an adjusted metric and excludes the impact of contract adjustments and other items totalling £7.4m (H1 22: £2.1m). See slides 31 to 32 for a reconciliation of reported to adjusted measures.

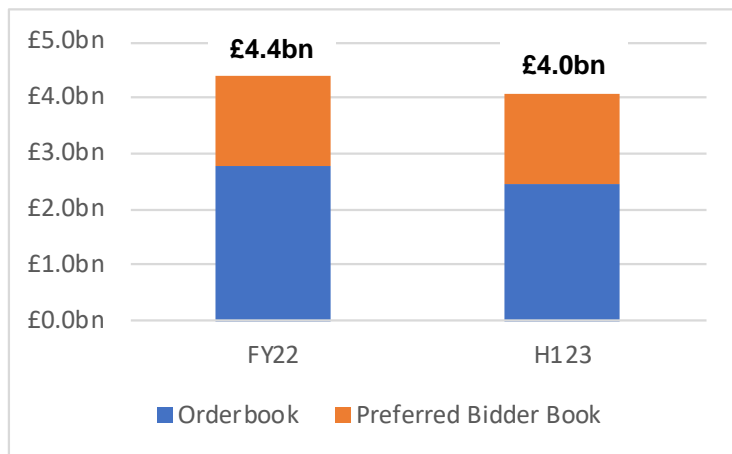
Strength of secured workload

Well positioned to deliver further progress this year



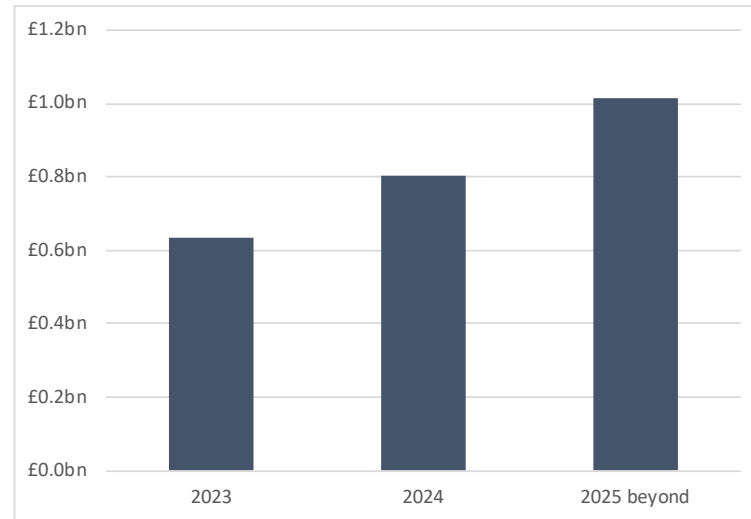
Order & Preferred Bidder Books

Holistic view is increasingly relevant - our business mix is shifting towards the preferred bidder book as we secure long-term (5-to-10-year) framework positions with our customers, providing a reliable stream of future work.



- Order book of £2.5bn at the end of June 2023 (FY22 £2.8bn)
- Preferred bidder book consistent at £1.5bn (FY22 £1.6bn)

Secured Revenue



- More than £630m of secured revenue for H2 23 at the end of H1 23 - representing 90% of forecast revenue for H2

Risk management

Strengthened contract governance to underpin margin progression




Work winning

-  Contract selection
-  Independent review
-  Enhanced legal process



Contract duration

-  Operational excellence model
-  Financial oversight
-  Senior management review

Margin milestones: adjusted operating margin run-rate of 3.5% during the course of FY24 and 4.5% during the course of FY25, with an ambition of 5%

Balance sheet

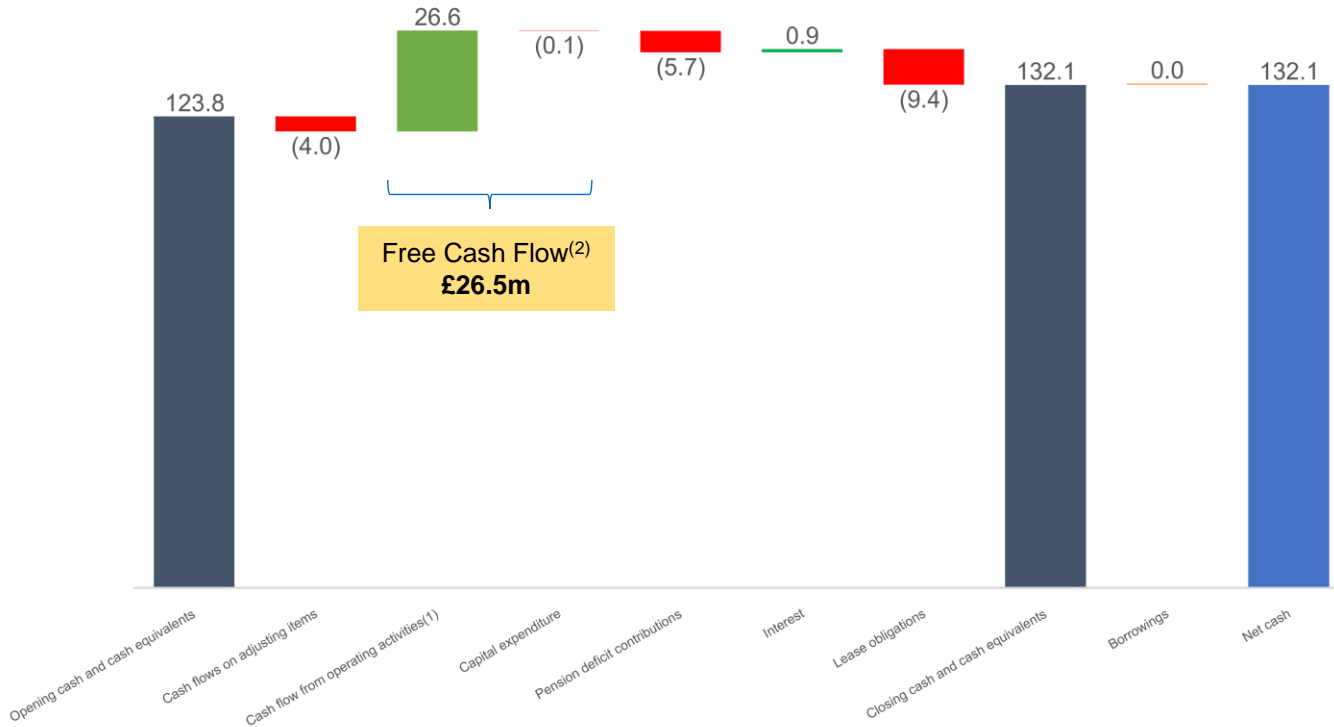


Consolidated statement of financial position	H1 23 £m	FY 22 (as restated) £m
Assets		
Retirement benefit asset	58.7	60.2
Other non-current assets	97.6	106.6
Total non-current assets	156.3	166.8
Current assets		
Trade receivables and other current assets	201.4	197.0
Cash and cash equivalents	132.1	123.8
Total current assets	333.5	320.8
TOTAL ASSETS	489.8	487.6
Current liabilities		
Trade payables and other liabilities and lease obligations	261.3	253.1
Interest bearing loans and borrowings	0.0	0.0
Total current liabilities	261.3	253.1
Non-current liabilities		
Other payables and lease obligations	18.2	23.3
Interest bearing loans and borrowings	0.0	0.0
Total non-current liabilities	18.2	23.3
TOTAL LIABILITIES	279.5	276.4
Equity	210.3	211.2

- Net assets position maintained at £210.3m
- Strong net cash £132.1m
- Retirement benefit asset reduced on FY 22 position (reduced surplus on performance of growth assets in period)
- Other non-current assets reduced on FY 22 position (impairment of an intangible asset, relating to the repositioning of digital towards services growth)
- Trade receivables and other assets increased on FY 22 position (increased contract assets partially offset by decreased trade receivables)
- Trade payables and other liabilities increased on FY 22 position (increased subcontractor accruals partially offset by decreased trade payables)

H1 23 Cash walk

Increased H1 23 net cash position reflecting strong Free Cash Flow and working capital management



- Strong free cash flow of £26.5m, reflecting continued working capital management, which benefitted from further positive cash collection timings during the half.
- Strong closing net cash position of £132.1m
- During H1 23 we paid more than 98% of invoices within 60 days. Costain has been reconfirmed as one of the **top three fastest-paying** main contractors in construction following the submissions to the Government's Duty to Report on Payment Practices and Performance.

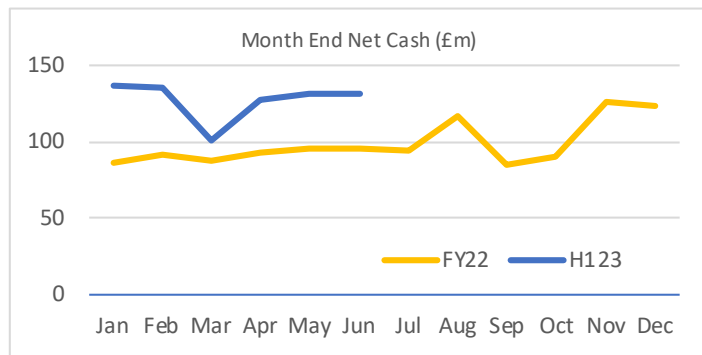
1. Excluding adjusting items, interest, taxation and pension deficit contributions, shown separately.

2. Free cash flow is an adjusted metric and is defined as cash from operations, excluding adjusting items and pension deficit contributions, less taxation and capital expenditure. See slide 30 for detailed calculation.

Cash and banking facilities



Net Cash £m	H1 23	FY 22
Cash	77.6	67.3
Cash held at joint ventures	54.5	56.5
Loans	0.0	0.0
	132.1	123.8
Average month end net cash	127.9	99.2



- Average month end net cash £127.9m, higher than FY 22 of £99.2m
- No drawdown of RCF
- Significant headroom on bonding facilities at 30 June 2023
 - Facility £280m (FY22 £280m)
 - Utilisation £79m (FY22 £89m)
- Refinancing of banking facilities agreed in July 2023, with a maturity date of September 2026
 - RCF £85m (previously £125m)
 - Surety & Bank Bonding Facilities £270m (previously £280m)

Pension

- Triennial valuation of the Costain defined benefit pension scheme as at 31 March 2022 concluded in June 2023
- Deficit contributions of £3.3m (+CPI) agreed
- Scheme funding position at 31 March 2022 deficit of £25.1m⁽¹⁾ (a funding level of around 97%)
- Future contributions and “dividend parity” to be determined by Scheme funding position each 31 March

(1) on a Technical Provisions basis



Dividend

- Resumption of interim dividend payment under consideration by Board, with 1/3 interim, 2/3 final payment ratio
- Within pension scheme “dividend parity” arrangements
- Potential dividends may increase above “dividend parity” depending on cash flow and pension scheme funding level



Further progress in H2 23

- Mindful of macro-economic uncertainties
- Making improvements to operational performance, a strong cash position and clear strategic priorities
- Positive cash collections end of FY 22 and H1 23, likely to unwind H2 23
- Broad customer focus – secured 90% of revenue for H2 23





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Strategy & Outlook

Alex Vaughan
Chief Executive Officer

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Resilient investment in critical national needs



Megatrends



Climate Change and Net Zero imperative



Resource, Environmental and Economic resilience



Need for Transformation and Affordability



Balancing and enabling economic growth and Social Change

UK Government sets out ten-year plan for investment of £60bn per year to 2030

Transportation



Water



Energy



Defence and Nuclear



Strong infrastructure investment

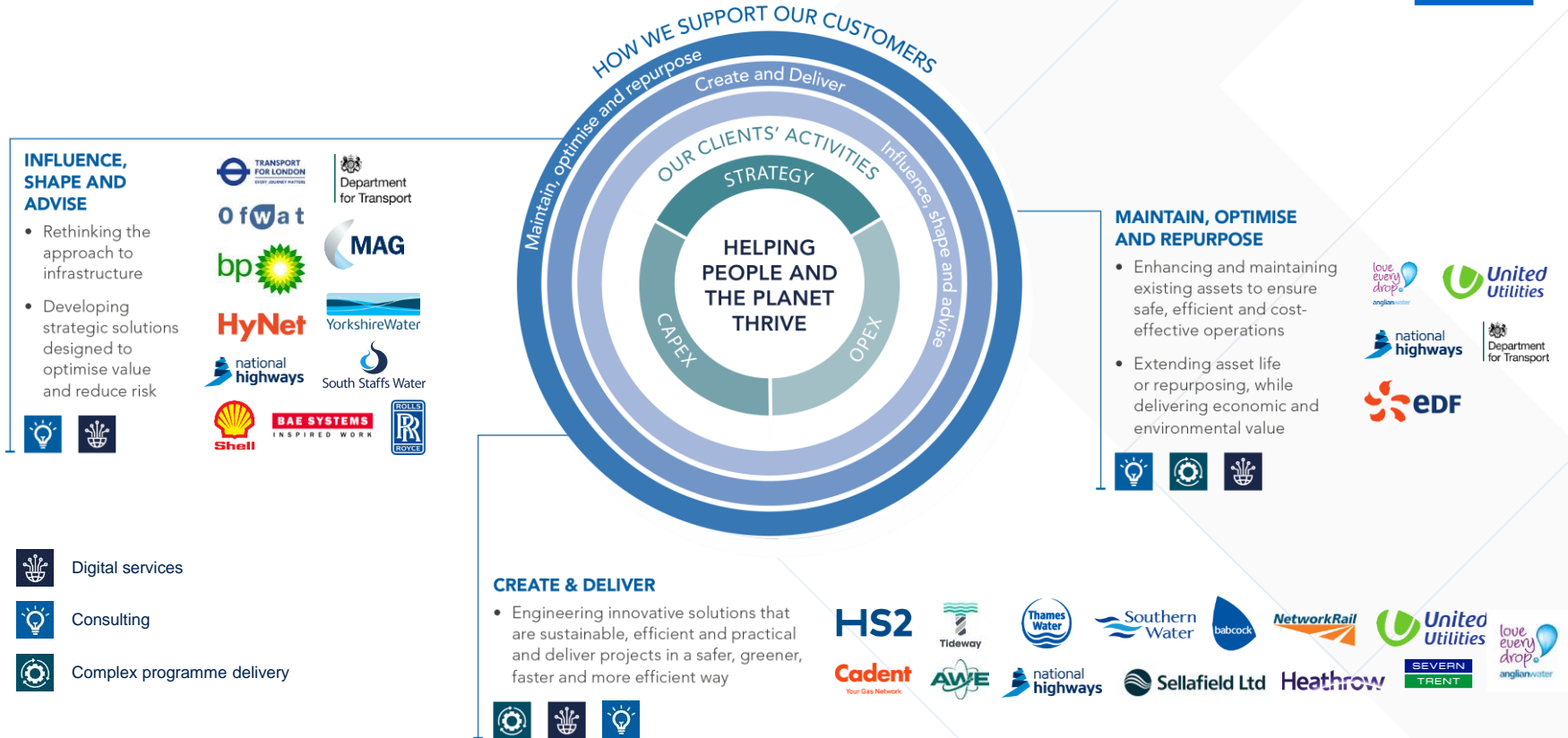
Most customers procure against five-year investment plans



	Committed investment	Investment period	2023	2024	2025	2026	2027	2028	2029	2030	
National Highways	£27bn	2020-2025	RIS2			RIS3					
High Speed Rail	c£50bn	2018-2040	Phase 1 (London – West Midlands)								
			Phase 2a (West Midlands – Crewe)								
			Phase 2b (Crewe – Manchester)								
Integrated Rail Plan	£54bn	2022-2050	IRP								
Network Rail	£44bn	2024-2029	CP6			CP7				CP8	
Local Government	£11bn	2021-2028	Regional funding (including Levelling Up)								
Ports and Aviation	£7bn+	2021-2040	Port and Airport expansion								
Water	£51bn+	2025-2030	AMP 7				AMP 8				
Energy	£12bn	2020-2030	10-Point Plan								
	£30bn	2021-2026	RIIO-2				RIIO-3				
	£25bn	2023-2028	RIIO-ED2 (Electricity Distribution)					RIIO-ED3			
Defence	£240bn	2022-2032	Defence Equipment Plan								
	£4bn	2020-2030	Defence Estates Optimisation								
Nuclear	£8bn	2023-2025		Nuclear Decommissioning Authority							
	c£20bn	2023-2038		Sizewell C							

Note: these investment plans are not all addressable by Costain and there are market opportunities which do not fall under these investment plans

Supporting our customers across their full ecosystems



INFLUENCE, SHAPE AND ADVISE

- Rethinking the approach to infrastructure
- Developing strategic solutions designed to optimise value and reduce risk

MAINTAIN, OPTIMISE AND REPURPOSE

- Enhancing and maintaining existing assets to ensure safe, efficient and cost-effective operations
- Extending asset life or repurposing, while delivering economic and environmental value

- Digital services
- Consulting
- Complex programme delivery

CREATE & DELIVER

- Engineering innovative solutions that are sustainable, efficient and practical and deliver projects in a safer, greener, faster and more efficient way

Solutions through complex programme delivery



Thames Tideway



RDP & Smart Motorway Alliance

- A leading capital delivery partner for complex infrastructure
- Design, build and maintain expertise
- Serving blue-chip customers



HS2



Water Frameworks



Gatwick Station



Anglian SPA

Through consultancy



Delivery Partner



Solution Design/Project Controls



Advisory



- Leveraging our core expertise in programme delivery
- A leading Delivery Partner overseeing our customers' major infrastructure programmes
- A growing design and Project Controls/P3M expert
- An energy process engineering expert
- A valued advisor where innovation, project management and problem solving skills are highly valued

Through digital solutions

- Our value is the combination of our customer relationships, intimate infrastructure insight, technology expertise and know-how, and strategic digital partnerships.
- Discontinuing development and manufacturing activities of operational technology
- Our focus is on improving and transforming infrastructure performance such as situational intelligence and digital twins



Delivering our ESG ambitions

Activating our purpose



Planet

Safeguard our planet's future

- Innovative construction planning and methodologies at the Preston Western Distributor project saved 6,000T of Co2e
- In Q1 23 a Group-wide low carbon materials mandate has been launched to accelerate our transition to net zero emissions
- All relevant construction projects have carbon reduction and biodiversity net gain plans in place and are actively measuring performance.



People

Create a positive lasting legacy for our people and communities

- During H1 there were seven reportable accidents, this translates to a lost time injury rate (LTIR) of 0.11 (H1 22:0.06)
- Costain continues to take a leading role in diversity and inclusion in the industry by voluntarily disclosing our ethnicity pay gap
- Gender and ethnic diversity continues to increase year-on-year across the group as a result of our proactive action (28.2% female and 15.3% BAME).



Performance

Deliver strong sustainable financial and ethical performance for our stakeholders

- **Costain was named in the top three fastest payers in the industry for the second consecutive year**
- Secured an £85m sustainability-linked revolving credit facility, aligned to carbon reduction, increasing spend with small business and social enterprises, and diversity KPIs
- 38% of spending with small and medium-sized enterprises (SMEs) maintaining the high levels reported in 2022 (H2 22 38%).

Further progress expected in H2 23

- On track to meet margin milestones and Board forecasts for FY 23
- Dividend resumption under review by Board with announcement expected shortly
- New contracts won at margins and risk profile we aspire to
- Quality forward workload with high level of bidding
- Mindful of macroeconomic environment
- Confident in Group strategy and longer-term prospects





Q&A

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Appendices

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Cash flow



Consolidated cash flow statement	H1 23	H1 22
	£m	£m
Cash from operations before changes in working capital and provisions	20.9	17.2
Changes in working capital	4.9	9.8
Movement in provisions and employee benefits	(8.9)	(46.1)
Interest and tax, net received / (paid)	0.9	(1.1)
Net cash from operating activities	17.8	(20.2)
Capital expenditure	(0.1)	(0.1)
Other investing	0.0	0.5
IFRS 16 leases	(9.4)	(3.7)
Repayment of borrowings, net	0.0	(4.0)
Net increase/(decrease) in cash and cash equivalents	8.3	(27.5)
Cash and cash equivalents at beginning of period	123.8	159.4
Impact of foreign exchange	0.0	0.0
Cash and cash equivalents at end of period	132.1	131.9
Borrowings	0.0	(36.0)
Net cash at end of year	132.1	95.9

Free Cash Flow



Adjusted free cash flow	H1 23	H1 22
	£m	£m
Cash from operations	16.9	(19.1)
Add back cash flow on adjusting items	4.0	48.4
Add back pension deficit contributions	5.7	5.2
Less taxation	0.0	0.0
Adjusted cash from operating activities	26.6	34.5
Capital expenditure	(0.1)	(0.1)
Adjusted free cash Flow	26.5	34.4
<i>Memo: including operating leases, which are shown outside of cash from operations due to IFRS 16:</i>		
IFRS 16 leases	(9.4)	(3.7)
Adjusted free cash flow after IFRS 16 leases	17.1	30.7

Adjusted to Reported Reconciliation

£m	H1 23				H1 22			
	Reported	Contract Adjustments	Other Adjustments	Adjusted	Reported	Contract Adjustments	Other Adjustments	Adjusted
Group Revenue	664.4	0.0	0.0	664.4	665.2	0.0	0.0	665.2
Cost of sales	(618.0)	0.0	0.0	(618.0)	(627.4)	0.0	(0.5)	(627.9)
Gross Profit	46.4	0.0	0.0	46.4	37.8	0.0	(0.5)	37.3
Administrative expenses	(38.8)	0.0	7.4	(31.4)	(25.9)	0.0	2.6	(23.3)
Group operating profit	7.6	0.0	7.4	15.0	11.9	0.0	2.1	14.0
Share of results of joint ventures and associates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net finance expense / (expense)	0.9	0.0	0.0	0.9	(0.7)	0.0	0.0	(0.7)
Profit before tax	8.5	0.0	7.4	15.9	11.2	0.0	2.1	13.3
Taxation	(3.4)	0.0	(0.5)	(3.9)	(2.1)	0.0	(0.5)	(2.6)
Profit for the year attributable to equity holders of the parent	5.1	0.0	6.9	12.0	9.1	0.0	1.6	10.7
Basic earnings per share (pence)	1.9	0.0	2.5	4.4	3.3	0.0	0.6	3.9

£m	H1 23				H1 22			
	Reported	Contract Adjustments	Other Adjustments	Adjusted	Reported	Contract Adjustments	Other Adjustments	Adjusted
Natural Resources Revenue	177.3	0.0	0.0	177.3	170.6	0.0	0.0	170.6
Transport Revenue	487.1	0.0	0.0	487.1	494.6	0.0	0.0	494.6
Group Revenue	664.4	0.0	0.0	664.4	665.2	0.0	0.0	665.2
Natural Resources operating profit	7.5	0.0	0.0	7.5	2.4	0.0	0.2	2.6
Transport operating profit	6.9	0.0	5.3	12.2	15.9	0.0	0.0	15.9
Central operating loss	(6.8)	0.0	2.1	(4.7)	(6.4)	0.0	1.9	(4.5)
Group operating profit	7.6	0.0	7.4	15.0	11.9	0.0	2.1	14.0

Adjusting items



£m	H1 23		H1 22	
	Contract Adjustments	Other Adjustments	Contract Adjustments	Other Adjustments
Transformation and restructuring costs	0.0	2.1	0.0	2.6
Impairment of development intangible asset	0.0	5.3	0.0	0.0
Profit on sale of non-core asset	0.0	0.0	0.0	(0.5)
Total operating profit adjustments	0.0	7.4	0.0	2.1

FY 22 IFRS 16 impact



Income statement impact	£m
Operating costs	7.1
Depreciation	(6.3)
Finance costs	(0.7)
Net impact on income statement	0.1

Fixed Assets impact	£m
Fixed assets opening position (restated)	30.7
Additions	4.1
Disposals	(0.2)
Depreciation	(6.3)
Fixed assets closing adjustment	28.3

Liabilities impact	£m	£m	£m
	Opening (restated)	Movement	Closing
Current liabilities	11.0	(0.7)	10.3
Non-current liabilities	18.5	(4.8)	13.7
	29.5	(5.5)	24.0

Key to investment programmes



National Highways	<ul style="list-style-type: none">• RIS – Road Investment Strategy
High Speed Rail	<ul style="list-style-type: none">• S1 & S2 – Stage 1 and Stage 2• 2A - Phase 2A• DDP – Design & Delivery Partner• M&E – Tunnel & lineside mechanical & electrical• Power – HV power system
Integrated Rail Plan	<ul style="list-style-type: none">• IRP – Integrated Rail Plan
Network Rail	<ul style="list-style-type: none">• CP – Control Period
Water	<ul style="list-style-type: none">• AMP – Asset Maintenance Plan
Energy	<ul style="list-style-type: none">• RIIO - Revenue=Incentives+Innovation+Outputs (Ofgem performance model)

Cautionary forward-looking statements



This presentation contains certain statements that are forward-looking statements based on current expectations and reasonable assumptions. Various known and unknown risks, uncertainties and other factors may cause actual results to differ from any future results or developments expressed or implied from the forward-looking statements.

Each forward-looking statement speaks only as of the date of this document. The Group accepts no obligation to publicly revise or update these forward-looking statements or adjust them to future events or developments, whether as a result of new information, future events or otherwise, except to the extent legally required.